IBERIA

Iberia continues resurgence despite political drama

Positive macroeconomic outlooks for Spain and Portugal, coupled with plentiful debt and renewed international interest in the region, have nullified the effects of political instability. Chris Papadopoullos reports

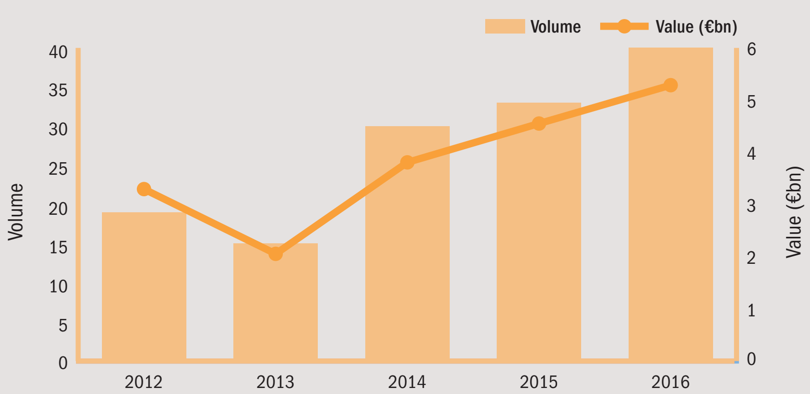
The political leaders of Spain and Portugal begin 2017 in precarious positions. Both are in minority governments and playing a delicate balancing act between satisfying the European Commission's (EC) demands for tighter control of state finances and keeping the support of the electorate and fellow lawmakers on side.

After 10 months without a formal government, Spain's political deadlock was finally broken in October 2016, after the Socialist party abstained from a vote of confidence and Mariano Rajoy was re-elected prime minister. Had it not been for the abstention, Spain would have had its third general election in 12 months. Meanwhile, Portugal's prime minister, Antonio Costa, heads up a Socialist minority government with ad hoc support from the Greens, the Left Bloc and the Communist Party.

Yet the Spanish economy has been unfazed by this political drama. It grew by 3.2% in 2016 in real terms after growing at the same rate in 2015. While strong in comparison to other developed countries, Spain was hit much harder following the financial crisis, suffering a severe double-dip recession, and the economy is still operating below pre-crisis levels. The EC forecasts a slowdown in growth to 2.3% this year and 2.1% in 2018. And though unemployment is falling, dropping to 18.3% in the fourth quarter of 2016 after peaking at 27% in 2013, Spain still has one of the highest unemployment rates in Europe and youth unemployment is 44%, down from a recession peak of nearly 55%.

The country continues to lock horns with Brussels over its state borrowing. In its autumn forecasts, the EC expected the government's budget deficit to be 4.6% of GDP in 2016, in breach of the EU's Stability and Growth Pact, which sets a maximum of 3%. Despite missing consecutive budget targets set by the EU, the country continues to avoid fines. In December,

Iberia overall dealflow



Source: *unquote" data*

Private-equity-backed buyouts

	2012	2013	2014	2015	2016
Volume	19	15	30	33	40
Value (€bn)	3.26	2.05	3.81	4.55	5.29
Average value (€m)	173	137	127	138	132
% of European volume	3.2%	2.6%	4.6%	5.1%	5.4%
% of European value	4.3%	2.4%	3.8%	3.6%	4.5%

Rajoy announced a combination of tax rises and spending cuts, which, along with the growing economy, is hoped will cut the budget deficit to 3.1% this year.

Portugal's annual finances look a little better. Its 2016 budget deficit is expected to come in below the 2.5% target set by Brussels, according to Costa. However, Portugal has a debt-to-GDP ratio of 130% compared with 100% for Spain.

Its economy grew by only around 1% in 2016, according to EC forecasts, but is expected to speed up to 1.2% in 2017 and 1.4% in 2018. The improved economic outlooks of both Spain and Portugal are reflected in their 10-year government bond yields, which are 1.7% and 4.2% respectively, down from 6.6% and 16.4% at the peak of the sovereign debt crisis.

Dealflow strengthening

The Iberian buyout market continued its robust recovery in 2016. The number of deals increased to 40 from 33, a huge improvement on the 15 deals completed in 2013. The total deal value reached €5.3bn, which was up from €4.6bn in 2015 and more than double 2013's dismal €2.1bn. Improving buyout flow meant Iberia accounted for 4.5% of total European deal value, up from 3.6% in 2016. "Spain is in fashion right now," says Patrick Gandarias, founding partner at Corpfin Capital. "We are riding the rollercoaster, and we are at a very high point."

In terms of deal volume, Iberia made up 5.4% of European deals, up from 5.1% in 2015. The recovery was driven by mid-market buyouts. In the €50-250m range, the number of deals climbed to 19 from 14, while aggregate value rose from €1.3bn to €2.2bn, driven notably by bigger equity tickets from private equity houses based outside Iberia.

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The primary driver behind this is not just to do with the fact that Spain has been one of the fastest growing economies in Europe, but that its companies are in much better shape now than they have been for years, having repaired their balance sheets and moved more into export markets. Previously, Spanish companies had grown very quickly between 1985-2008, but this was largely fuelled by domestic demand, which evaporated during the financial crisis.

"Many companies did not expand internationally [before 2008] because they were in heaven locally," says Miguel Martí, partner at Clearwater International. "A good number of companies are now international exporters, which has attracted more investors because risk is reduced with the diversification of revenue streams."

Portugal is also becoming more attractive to international investors, with Carlyle Group buying packaging company Logoplaste for €660m, in the first buyout in Portugal worth more than €500m since 2008.

Plentiful debt, less competition

One factor boosting deal volume in Iberia is the abundance of financing options. The Spanish banking system has been repaired and private equity houses are getting increasing access to international debt funds.

"You can finance any deal now, banks will throw money at you," says Gandarias. "Plus, you lift a stone and 20 debt funds come running out."

In addition, there is arguably less domestic competition for deals and this is leading to a more level playing field.

Spanish private equity houses are currently sitting on around €3.5bn of dry powder, down from €6bn pre-crisis, but up from €1.6bn in 2013, according to figures from the Spanish Private Equity Association (Ascri). While some of the drop in dry powder compared with the pre-crisis level is due to difficulties in fundraising between 2008-2014, it is also because a larger number of deals have been completed.

"This [lower amount of dry powder] is because many direct investors such as the *cajas* are not there anymore," said Juan Luiz Ramírez, founding partner at Portobello Capital and chairman of the Ascri. "The market is much better today, having taken out these politically driven potential competitors for deals."

The *cajas* (Spain's local savings banks) would buy minority stakes in local firms, often for political reasons without attempting to make a return or modernise the target company, Ramírez explains. By 2008, they accounted for half the deposits and loans in the Spanish banking system, before collapsing following the burst of the real estate bubble.

Deal sourcing

The dominant deal source in the Iberian region is family and private vendors, which remains far ahead of other categories in terms of the number of deals. Spain remains a country of small companies, with family-owned firms creating 65% of the country's output.

The number of deals sourced from family and private vendors continued to grow considerably in 2016, rising to 28 in 2016 from 20 in 2015. However, the total amount spent buying firms from family/private vendors dropped to €1.9bn from €2.8bn.

Institutional investors were also cashing in on the demand for bigger firms from international buyers. €1.2bn was spent on acquiring firms from foreign parents while €1.6bn was spent on buying from institutional investors. Both figures are up substantially on 2015.

The core market in Spain for deal volumes is in the €5-15m EBITDA range, with purchases made directly rather than at auction. "This creates opportunities for local private equity houses, with international investors focusing on the higher end of the market," says Martí.

Says Gandarias: "If you just go to auctions, it is extremely competitive. There are a lot of opportunities if you don't go to auctions, but then you have to find a lot of time and money looking for deals."

The competition at auctions is putting upward pressure on prices at the top end of the market. "If you look at the large-cap deals, which is where the larger pan-European buyout funds approach the market, you see a bit of pressure on prices for the €100m+ equity ticket," says Juan Leach, managing partner at Miura Private Equity. "If you move down a level there are still opportunities."

The pressure on big equity tickets was typified by Cinven's purchase of Hotelbeds Group for €1.2bn. The firm had an underlying EBITDA of €116.8m, resulting in a price-to-earnings multiple of 10.3x.

Exit environment

The health of Spanish companies and general improvement in the macroeconomic environment is attracting trade buyers. There were 42 exits across all investor types (not just buyout players), down from 54 in 2015. The biggest component was trade sales at 17, which has often been the highest type of exit for the last four years.

One of the biggest exit deals last year was CVC Capital Partners' sale of Spanish hospital company Quironsalud to healthcare provider Fresenius for €5.8bn.

Indeed, demand for Spanish assets is helping private equity houses to divest. The number of secondary buyouts remained elevated compared with the average over the last several years despite falling to nine from 12. This includes Nazca Capital's sale of agricultural company Agromillora Group to Investcorp for €200m.

As a positive reflection of Spain's economic recovery, no high profile deals are known to have ended in receivership in 2016. This compares with a peak of 21 known deals that ended in receivership in 2011. However, there were no stock market flotations in 2016, compared with two the year before.

Fundraising environment

Iberian fundraising bounced back in 2016 after a lull in 2015. The amount raised by Spanish funds hit €2.24bn, up 51% on the year before, according to local trade body Ascri.

Raising money has become easier in Spain since the economy began recovering, tempting international investors back into Spanish funds. But it has also had a great deal of help from Fund ICO, a €1.5bn state-backed fund-of-funds launched in 2013. The vehicle will fill around 30% of a fund's target, helping it to reach its first close and then begin to attract more international capital. It is funded by the Spanish government, with additional backing from the European Investment Bank.

"The fund was necessary back in 2012 when it was almost impossible to raise capital in Spain, although now it is not so necessary for the buyout funds," says Miura's Juan Leach. "Strong-performing GPs are able to raise capital without a problem."

Says Portobello's Ramírez: "Thanks to Fund ICO, many funds have been able to raise and attract international money to invest in the Spanish landscape. Fund ICO has helped many funds get to their first closings."

The biggest investors in Spain's private equity funds are European. Spanish insurance and pension funds are not as yet big investors in the asset class. Ramírez says one of his goals as chairman of Ascri is to bring more Spanish insurance and pension funds into the asset class. They have shied away from private equity due to high returns on public debt, a lack of knowledge on the asset class, and strict rules on the fees.

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Meanwhile, *unquote"* recorded two buyout fund launches in 2016. Nazca Capital met its target of €250m on Fondo Nazca IV, launched in May and aiming to undertake 10 buyouts across the Spanish mid-market with revenues in the €30-200m range. Merida Capital also announced a buyout fund with a target of €125m to invest in firms with revenues in the €15-100m.

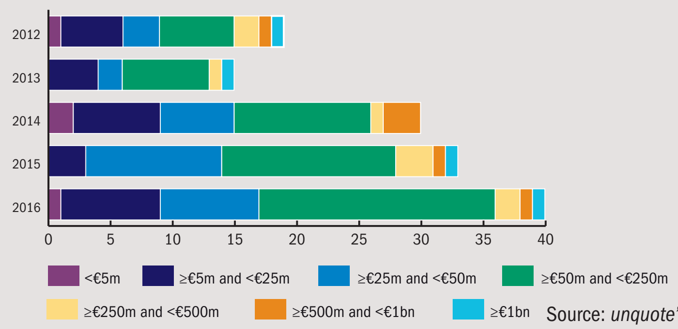
Abac Capital held a €320m final close in May 2016 for its maiden fund Abac Solution I. The fund held its final close in May and will target majority stakes in mid-sized companies with an enterprise value in excess of €30m, with equity tickets between €20-50m. ■

Iberia deals 2016

Deal name	Business description	Deal value (€m)	Sector	Equity
Hotelbeds Group	Provider of transfers, excursions, tours, meetings and events services to the travel industry	1,200	Consumer	Cinven
Logoplaste	Manufacturer of packaging for food and homecare products	660	Industrials	Carlyle Group
Sapec Agro Business	Manufacturer of crop protection products, such as herbicides, insecticides and fungicides	456	Industrials	Bridgepoint Capital
Tinsa	Provider of real estate valuation, analysis and advisory services	350	Business Services	Cinven
Digitex	Provider of administrative outsourcing services	n/d (50-250)	Business Services	Carlyle Group,
Invent Farma	Developer and manufacturer of generic drugs for the pharmaceuticals industry	220	Healthcare	Apax Partners
Agromillora	Supplier of advanced plant propagation for the agricultural industry	200	Consumer	Investcorp
Garnica Plywood	Manufacturer and distributor of plywood boards	200	Industrials	Intermediate Capital Group
SAT Moyca	Producer and distributor of grapes	185	Consumer	ProA Capital
Cupa	Producer of slate and stone-based products for furniture and fixings	170	Industrials	Carlyle Group
Ramón Sabater	Manufacturer and distributor of paprika, spices and herbs	110 (est)	Consumer	Portobello Capital
Caiba	Producer of plastic packaging for the food, drinks and personal care sectors	n/d (50-250)	Industrials	Nazca Capital
Palex Medical	Manufacturer of machinery for the medicine and surgery sectors	n/d (50-250)	Healthcare	Corpfin Capital
Discefa	Distributor of frozen octopus	n/d (50-250)	Consumer	Oquendo Capital, GED Capital
Laulagun Bearings	Designer of large-diameter bearings and slewing rings for wind power, lifting machinery and infrastructure clients	n/d (50-250)	Industrials	Portobello Capital,
Igenomix	Provider of services in reproductive genetics	n/d (50-250)	Healthcare	Amadeus Capital Partners, Charme,
Royo Group	Producer of bathroom furnishings and appliances, including hydro massage baths, shower columns and trays	n/d (50-250)	Consumer	HIG Europe
Acuntia	Provider of IT and networking solutions to large enterprise customers	n/d (50-250)	TMT	GPF Capital
Industrias de Transformacion de Andoain	Manufacturer of high quality release liners	n/d (50-250)	Industrials	Magnum Capital
Arenal	Retailer in the personal care and beauty sector	n/d (50-250)	Consumer	Corpfin Capital
Global Yachting Group	Maintainer of super-yachts	n/d (50-250)	Consumer	Lonsdale Capital Partners

IBERIA STATS

Iberia buyouts by size range (volume)

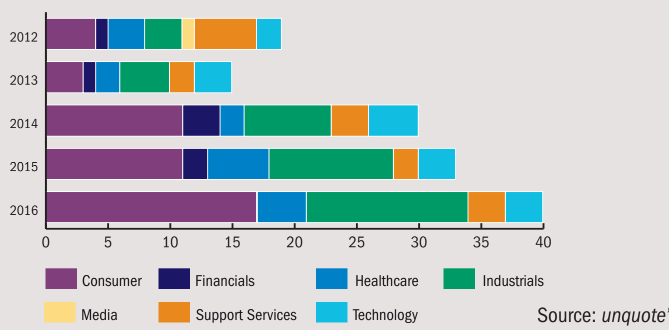


Source: *unquote" data*

Iberia buyouts by €m size range (volume)

	2012	2013	2014	2015	2016
<5	1	0	2	0	1
≥5 and <25	5	4	7	3	8
≥25 and <50	3	2	6	11	8
≥50 and <250	6	7	11	14	19
≥250 and <500	2	1	1	3	2
≥500 and <1bn	1	0	3	1	1
≥1bn	1	1	0	1	1

Iberia buyouts by super-sector (volume)

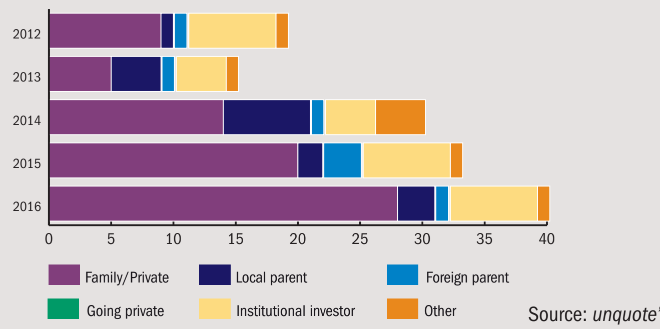


Source: *unquote" data*

Iberia buyouts by super-sector (volume)

	2012	2013	2014	2015	2016
Consumer	4	3	11	11	17
Financials	1	1	3	2	0
Healthcare	3	2	2	5	4
Industrials	3	4	7	10	13
Media	1	0	0	0	0
Support Services	5	2	3	2	3
Technology	2	3	4	3	3

Iberia buyouts by vendor type (volume)



Source: *unquote" data*

Iberia buyouts by vendor type (volume)

	2012	2013	2014	2015	2016
Family/Private	9	5	14	20	28
Local Parent	1	4	7	2	3
Foreign parent	1	1	1	3	1
Going Private	0	0	0	0	0
SBO	7	4	4	7	7
Other	1	1	4	1	1

Iberia exits 2016

Deal/Exit name	Exit route	Exit value (€m)	Full exit investors
Capio Sanidad / Quironsalud	Trade sale	5,760.00	CVC Capital Partners
Logoplaste	SBO	660.00	API
Grupo SAR /SAR Quavitae	Trade sale	440.00(est)	G Square Capital, Palamon Capital Partners
Applus+	Other	150.00	Carlyle Group
Winn Group	Direct secondary	96.30	JZ Capital Partners
FCC Logística	Trade sale	84.00	Corpfin Capital
Nutricafés, Cafésy Restaração	Trade sale	74.50	Explorer Investments, MCH Private Equity
Catai Tours	Trade sale	n/d	Corpfin Capital
Telindus España	SBO	n/d	Corpfin Capital
Privalia	Trade sale	n/d	Cabiedes and Partners, Caixa Capital Risc, Insight Venture Partners, General Atlantic-London, Nauta Capital, Highland Capital Partners, Index Ventures, Sofina

€5.7bn
Largest Iberia exit in 2016

€132m
Average Iberia buyout size in 2016

Iberia funds 2016

Fund name	Fund manager	Type	Target (€m)	Amount closed (€m)
Fondo Altamar VIII	Altamar Capital	Fund of Funds	400	500
Global Private Equity Global Program VIII	Altamar Capital	Buyout	400	500
Abac Solution I	ABAC Capital	Generalist	320	320
Galdana Ventures' VC fund-of-funds	Galdana Ventures	Fund of Funds	150	250
Ysios BioFund II	Ysios Capital Partners	Venture	100	126.4
Qualitas Mutual Private Equity Fund I	Qualitas Equity Partners	Fund of Funds	60	61

€1.2bn
Largest Iberia buyout in 2016